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Report of the Secretary-General on the activities of the Office of Internal Oversight Services

Report of the Office of Internal Oversight Services on the utilization and management of funds appropriated during the 2002-2003 biennium for strengthening the security and safety of United Nations premises

Note by the Secretary-General*

1. Pursuant to General Assembly resolutions 48/218 B of 29 July 1994, 54/244 of 23 December 1999 and 58/295 of 18 June 2004, the Secretary-General has the honour to transmit, for the attention of the General Assembly, the attached report, conveyed to him by the Under-Secretary-General for Internal Oversight Services, on the utilization and management of funds appropriated during the 2002-2003 biennium for strengthening the security and safety of United Nations premises.

2. The Secretary-General takes note of the findings and concurs with the recommendations made in the present report, which will contribute to strengthening the security and safety of United Nations premises.

* Because of the relatively short time since the adoption by the General Assembly of its resolution 58/295, OIOS was only able to complete the review in August 2004. The report transmitted by the present note was delayed accordingly.

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Report of the Office of Internal Oversight Services on the utilization and management of funds appropriated during the 2002-2003 biennium for strengthening the security and safety of United Nations premises

Summary

Pursuant to General Assembly resolution 58/295 of 18 June 2004, the Office of Internal Oversight Services (OIOS) conducted an audit of the utilization and management of funds appropriated during the 2002-2003 biennium for strengthening the security and safety of United Nations premises. The audit focused on the implementation of proposals presented in the report of the Secretary-General (A/56/848), which entailed estimated expenditures of $57.7 million.

By December 2003, $27.3 million of the $57.7 million (or 47.3 per cent) had been spent and by 31 May 2004, the expenditure had risen to $48.6 million. The initial low utilization of appropriations was due primarily to the time taken to finalize the main construction contract, which was not signed until 31 March 2004. However, there are indications that some projects at Headquarters may be delayed owing to unforeseen underground conditions at the site.

Security strengthening projects at United Nations Headquarters

Apart from the delays, there were three other issues that OIOS considered to be significant pertaining to projects at Headquarters. Firstly, with regard to cost estimates for security strengthening projects, OIOS found that projects which were approved by the General Assembly at an estimated cost of $20.7 million are now expected to cost more than $34.5 million with considerable reduction in scope. Further cost escalation would occur if the Office of Central Support Services proceeds with the proposed changes in specifications pertaining to the access control system. In the opinion of OIOS, the decision to modify the specifications for this project should be supported by a convincing cost benefit and risk analysis to justify the additional investment.

Secondly, an unspent balance of $4.8 million pertaining to the allocation for projects which were deferred to the capital master plan was pooled in a construction-in-progress account. In the view of OIOS, either this balance should be surrendered in accordance with financial regulation 5.3, or the additional funds proposed to be requested in the current biennium should be reduced by this amount.

Lastly, with regard to the main construction contract, the guarantees provided by the contractor were significantly lower than the Organization's requirements and industry standards, thereby exposing the United Nations to the risk of poor performance and payment defaults by the contractor. OIOS makes a number of recommendations for protecting the interests of the Organization in future construction contracts more effectively.

Security strengthening projects at the United Nations Office at Geneva

At the United Nations Office at Geneva (UNOG), the underutilization of funds of about $9.6 million (or 62 per cent of the revised appropriation) resulted from redesign of the projects owing to the increased level of threat to the United Nations from the incidents of 11 September 2001 and 19 August 2003. Moreover, the construction of the Chemin de fer entrance — a project that was a prerequisite for the commencement of other projects — was impeded by the delay in receiving the construction permit from the host country. The Chemin de fer entrance is now complete and UNOG expects that the majority of the other projects will be completed by December 2005.

As projects were modified and the scope of work increased, the cost estimates more than doubled. Moreover, the weakening of the United States dollar against the Swiss franc resulted in an estimated increase of about $3.4 million. At the time of the audit, projects were still being modified on the basis of technical feasibility studies in the areas of bomb vulnerability and fire audit, which may lead to further adjustments. In the opinion of OIOS, once all the security requirements are finalized, an up-to-date security strategy, a final plan and costing should be developed for each project. Once completed, senior management should ensure that the plan is respected and project objectives are achieved within the costs and timelines established.

To improve the management of the security projects, the steering committee established to oversee them should be revitalized to ensure a coordinated management decision-making process and to provide direction and oversight. In addition, considering the size and complexity of the security projects, a dedicated project manager should be assigned to enhance UNOG project management capacity.

The value of the contract awarded to a consortium of firms, which was responsible for architectural/engineering work and overall supervision of the security projects, increased from $670,000 to $4 million owing to a significant change in the scope of the work as well as the number of tasks assigned to them. It is expected that the fees will rise to $6.4 million because of a further increase in the scope of the construction work. In the opinion of OIOS, to ensure best value for money, as a minimum, a market survey should be conducted to make certain that the total fees payable are still competitive.

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I. Introduction

1. Pursuant to General Assembly resolution 58/295 of 18 June 2004, the Office of Internal Oversight Services (OIOS) conducted an audit of the utilization and management of funds appropriated during the 2002-2003 biennium for strengthening the security and safety of United Nations premises. The audit focused on the implementation of proposals presented in the report of the Secretary-General of 28 February 2002 (A/56/848), which entailed an estimated expenditure of $57.7 million, including one-time requirements for upgrading the physical and security infrastructures, acquiring related equipment and other expenditures totalling $44.8 million.

2. The main objective of the audit was to determine whether the resources provided for strengthening security and safety were utilized as intended and managed efficiently and effectively in compliance with established procedures. OIOS obtained updated expenditures as at 31 May 2004 and selectively reviewed major items, and ascertained the current status of security strengthening projects. In addition, major contracts relating to these projects were reviewed and the reasons for cost overruns and delays in implementation were analysed. The present report summarizes the OIOS findings based on the status of project activities as at 30 June 2004. A majority of these projects have only recently begun the construction phase. A draft of the present report was made available to the Department of Management and the United Nations Office at Geneva for review. Their comments are shown in italics.

II. Expenditures on strengthening security and safety

A. Utilization of 2002-2003 appropriations

3. Based on the aforementioned report of the Secretary-General, the General Assembly, in its resolution 56/286, authorized the appropriation of $57.7 million for the 2002-2003 biennium to implement the proposals for strengthening security and safety at United Nations Headquarters and other locations. The second performance report on the programme budget for the biennium 2002-2003 (A/58/558/Add.1) indicated that projected expenditures at the end of the biennium were $27.3 million (or 47.3 per cent of the appropriation). As at 31 May 2004, the expenditure against the appropriation of $57.7 million (which was subsequently revised to $58.9 million) totalled $48.6 million, as summarized in table 1.

Table 1
2002-2003 appropriations and commitments for strengthening security and safety of United Nations premises as at 31 May 2004

Budget section (2002-2003)	*2002-2003 appropriation*	*2002-2003 revised appropriation*	*Projected expenditure as at 31 December 2003*	*Actual expenditure including commitments as at 31 May 2004*	*Uncommitted balance as at 31 May 2004*
	(United States dollars)				
16. Economic and Social Development in Africa	85 600	86 300	54 700	103 100	(16 800)
17. Economic and Social Development in Asia and the Pacific	591 700	715 500	657 800	497 900	217 600
19. Economic and Social Development in Latin America and the Caribbean	232 000	219 400	161 000	232 000	(12 600)
20. Economic and Social Development in Western Asia	1 045 000	1 035 400	950 800	1 019 000	16 400
27C. Office of Human Resources Management	458 600	458 300	518 500	495 000	(36 700)
27D. Office of Central Support Services	9 144 200	9 178 400	7 342 100	7 403 700	1 774 700
27E. Administration, Geneva	2 052 500	2 315 500	1 252 900	1 904 500	411 000
27F. Administration, Vienna	370 600	392 700	392 700	392 700	-
27G. Administration, Nairobi	327 200	319 900	320 700	321 500	(1 600)
30. Special expenses	1 647 000	1 647 000	1 647 000	1 647 000	-
31. Construction, alteration, improvement and major maintenance, including:	41 830 900	42 578 200	14 073 000	34 676 000	7 902 200
Headquarters	26 128 000	26 000 600	7 740 800	27 527 200	(1 526 600)
Geneva*	14 595 200	15 475 400	5 503 200	5 908 200	9 567 200
Nairobi	535 000	521 000	520 900	726 700	(205 700)
Addis Ababa	325 000	333 500	119 400	325 000	8 500
Santiago	148 000	146 100	88 300	88 300	57 800
Bangkok	99 700	101 600	100 400	100 600	1 000
Grand total	**57 785 300**	**58 946 600**	**27 371 200**	**48 692 400**	**10 254 200**

* The revised appropriation of $15,475,400 was incorrectly recorded as $15,490,000 in the report of the Secretary-General (A/58/558/Add.1).

B. Expenditures on strengthening security at United Nations Headquarters

4. OIOS reviewed the expenditures under budget sections 27C (Office of Human Resources Management), 27D (Office of Central Support Services) and 31 (Construction, alteration, improvement and major maintenance at Headquarters) to identify underlying reasons for significant variances between appropriations and commitments as at 31 May 2004. The uncommitted balance of $1.7 million under section 27D was due primarily to: (i) deferral to the capital master plan of the rental of additional office space for a back-up remote Security Control Centre and for the relocation of non-priority occupants at Headquarters to an offsite location; and (ii) underutilization of the budget provision for furniture and equipment. The uncommitted balance of $1.7 million from this appropriation was, however, pooled

with the regular budget allocations under section 27D for the 2002-2003 biennium and utilized to meet expenditures on several non-funded security-related projects.

5. Under section 31, there were excess expenditures of $1.5 million compared to the revised appropriation of $26 million. The Department of Management informed OIOS that this excess was provisionally funded out of the resources provided for in the 2004-2005 biennium under section 33 (Construction, alteration, improvement and major maintenance). Disbursements as at 31 May 2004 were only $2.5 million and obligations amounting to $25 million related mainly to the construction contract for $21.6 million, which was concluded on 31 March 2004 (see paras. 26-29 below).

C. Expenditures on strengthening security at the United Nations Office at Geneva

6. As early as 1999, the United Nations Office at Geneva (UNOG) undertook a review of its security arrangements and developed a security concept. As indicated in the report of the Secretary-General (A/55/511), the Organization's share of security costs could approximate $2.7 million. An amount of $2.44 million was appropriated in the programme budget for the biennium 2002-2003. The security concept was overtaken by the events of 11 September 2001 and was modified, with emphasis on accelerated implementation and enhanced design. Taking into account the amounts previously requested in the aforementioned report of the Secretary-General, a budget proposal of $14.6 million was made (see A/56/848) and the amount was appropriated under budget section 31 (see table 1). Owing to the weakening of the United States dollar, the initial appropriation was subsequently revised to $15.5 million. Table 2 shows the total amounts appropriated for the biennium 2002-2003 and utilized as at 31 May 2004 for the security projects.

Table 2
Appropriations, disbursements and commitments for UNOG security projects as at 31 May 2004

Account	*Appropriated*	*Disbursements*	*Obligations*	*Pre-encumbrances*	*Total commitments*
	(United States dollars)				
UNA-1826-6730	2 439 100	2 221 400	138 400	-	2 359 800
CFS-1394-6730	15 475 400	967 400	4 940 800	-	5 908 200
Total	**17 914 500**	**3 188 800**	**5 079 200**	**-**	**8 268 000**

7. The funds spent so far were utilized mainly on fees for design, planning and supervision of work ($4.3 million), for the construction of the access road and other work at the Chemin de fer entrance ($2.4 million) and for the purchase of access gates for the Chemin de fer entrance and other entrances ($1.4 million).

8. According to the initial plan, most of the security projects were projected to start during the first half of 2003 and be completed in 2004. However, implementation of this plan was seriously affected by the frequently changing and increasing security requirements, as well as the late receipt of the construction permit for the Chemin de fer entrance. UNOG stated that these were the main

reasons for underutilization of funds of about $9.6 million (or 62 per cent of the revised appropriation of $15.5 million). The additional appropriation of $2.4 million indicated in table 2 was fully utilized.

9. OIOS noted that significant modifications and changes in project scope were necessitated by the incidents of 11 September 2001 in New York and 19 August 2003 in Baghdad. This resulted in cost increases in project design and construction work, as well as the extended duration of the project.

10. At the time of the OIOS audit in July 2004, the scope of the required enhancements was still growing, with additional measures being added. The technical feasibility studies on the areas of bomb vulnerability and fire audit were concluded in mid-July 2004. According to UNOG, the preliminary report has been delivered and was used as a basis for some projects proposed by UNOG in the Headquarters minimum operating security standards (phase II, second tranche). A final report will be delivered in September 2004, which may lead to the need for further adjustments to some projects. OIOS appreciates that some of the decisions are beyond the control of UNOG, such as the implementation of a global identification system. However, in the opinion of OIOS, once all the studies have been completed and reports delivered, and based on the UNOG objective of becoming compliant with the Headquarters minimum operating security standards, an up-to-date security strategy and final plan for each project needs to be formalized (Recommendation 1). OIOS accepts that the strategy may need some built-in flexibility to accommodate further changes in the security environment. Nonetheless, it is imperative that those involved agree on the scope of the work to be performed and reach an agreement on the estimated costs and construction timelines. Once this is done, senior management should ensure that it is respected. *UNOG indicated that that was a challenging task considering the changing and unpredictable security environment.*

11. The construction of the new Chemin de fer entrance was impeded by the delay in the receipt of the construction permit from the host country. The permit was only received in June 2003, some nine months after it was requested. This concern was reported in the report of the Secretary-General (see A/58/558/Add.1) and at the same time it was implied that other construction projects were delayed owing to non-receipt of permits. OIOS appreciates that to ensure the smooth flow of traffic in and out of UNOG, it was not practical to commence work at both the Pregny and the Chemin de fer entrances. Nonetheless, OIOS questioned why other construction projects (such as the enhancement of the perimeter fencing) could not commence in order to accelerate implementation. *UNOG indicated that owing to a shift in priorities, the completion of the Chemin de fer entrance was a prerequisite for other construction projects and with the recent incidents, a large vehicle bomb attack had become one of the largest threats. That had necessitated the redesign of the Chemin de fer entrance to be able to make a complete verification of large vehicles, which had become one of the highest priorities. For practical reasons, the two entrances could not be closed at the same time. Furthermore, owing to changing priorities and heightening security requirements, it would not have been logical or cost-effective to begin other projects, which ultimately would have to be enhanced or, in the worst scenario, redesigned. Moreover, although initially thought possible, UNOG did not have the staff resources or the management capacity to manage concurrent projects.*

12. Further delays occurred owing to changes in urban planning by the city authorities, which impacted the design of one of the entrance/exit gates. Moreover, one of the obstacles to starting the construction projects resulted from an assumption that the host country would contribute to the cost of the perimeter fence. This was noted in the report of the Secretary-General (A/58/758), in which it was stated that the cost of strengthening the perimeter was expected to be met by the Government of Switzerland. *UNOG informed OIOS that that had not been a major delaying factor. UNOG also confirmed that, at that time, it had become clear that funds would not be forthcoming from the host country to assist in the enhancement of the security of the Palais des Nations and therefore that the projects had had to be re-prioritized.*

D. Expenditures on strengthening security at other locations

13. OIOS reviewed the expenditures pertaining to security strengthening projects at other locations, i.e. the regional commissions and the United Nations Office at Nairobi. There were instances of underutilization and overutilization of the 2002-2003 appropriations, as well as some delays and weaknesses in project implementation and management. However, these were minor (in terms of expenditures and project magnitude) compared to the security strengthening activities undertaken at Headquarters and at Geneva.

III. Cost estimates for security strengthening projects

A. Projects at United Nations Headquarters

14. Seven security-related projects, as listed in annex 2 to the report of the Secretary-General (A/56/848), were originally included in the capital master plan (A/55/117 and Add.1). Following the events of 11 September 2001, these projects were brought forward for immediate implementation. In addition to these, there were nine other projects (referred to in paras. 40 (a) (i)-(vi) and 40 (b) (iv), (ix) and (x) of annex 1 to the Secretary-General's report (A/56/848)) which were included in the overall appropriation of $26.1 million under section 31 for the biennium 2002-2003 (see table 1). OIOS found that the initial cost estimates for these projects were not supported by an assessment of the full scope of work. Based on an urgent request by the Office of Central Support Services in November 2001, a security consulting firm provided what it called a "budgetary magnitude of probable costs" totalling $17 million for the seven projects that were originally in the capital master plan. The OIOS review of these estimates showed that the security consulting firm was unaware of the prevailing site conditions. Upon inquiry, OIOS was informed that no site visits had been conducted before submission of the "budgetary magnitude of probable costs". Consequently, scope definition for these projects was unclear. For example, even an approximation of the number of locations at which video surveillance cameras would need to be installed was not indicated. Moreover, the estimate for the perimeter lighting system appeared to have missed the fact that no electrical outlets were available at most locations along the perimeter of the complex. These deficiencies in scope assessment and cost estimation may be partly attributable to the security consulting firm's lack of expertise in the sphere of construction.

15. After funding for these projects was approved by the General Assembly in its resolution 56/286, the design development work was entrusted to the existing contractor who was providing design services for the capital master plan (see para. 25 below). The schematic estimates prepared by the design contractor in November 2002 showed the total estimated cost as $33.9 million (excluding design fees and fees for construction administration and management, which added up to $4.3 million), compared to the appropriation of $26.1 million.

16. The estimated costs of $33.9 million for 16 separate projects therefore exceeded the appropriation of $26.1 million by $7.8 million. The solution to this problem, which was identified by the design contractor and the Office of the Capital Master Plan, in consultation with the Security and Safety Service, was to develop a prioritized scope of work to implement those projects that would not be rendered redundant by subsequent work carried out under the capital master plan and which could be implemented immediately with available funds. At the same time, projects for which funds amounting to $5.4 million had been provided (see paras. 20 and 21 below) were deferred to the capital master plan, thereby reducing the number of active projects from 16 to 13. The design contractor's estimates (January 2003) for the reduced scope of work on the 13 active projects added up to $17 million. The constructability estimates subsequently prepared (August 2003) by the contractor for construction management services indicated the estimated cost of these 13 projects as $31.4 million, which was still much higher than the available funds of $20.7 million (i.e. $26.1 million less $5.4 million). After including the fees for design services (see para. 25 below) and construction management (see paras. 30 and 31 below) and a contingency provision of 18 per cent, the total cost of these 13 projects would be approximately $34.5 million, assuming that there would be no further cost escalations. Funding for the increase in project costs was requested under budget section 33 in the report of the Secretary-General of 5 April 2004 (A/58/756), which was approved by the General Assembly in its resolution 58/295.

17. Thus, projects approved by the General Assembly based on the projection that they would be completed at a cost of $20.7 million are now estimated to exceed $34.5 million, with considerable reduction in scope. There would be further cost escalation if the Office of Central Support Services proceeds with the proposed changes in specifications pertaining to the access control system (see para. 24 below). OIOS acknowledges that the projects' cost estimates were requested by the Office of Central Support Services on an emergency basis following the events of 11 September 2001, but is concerned that the submission of unreliable cost estimates to the Assembly does not constitute good management practice. *The Office of Central Support Services stated that realistic estimates could only be prepared after an in-depth study and assessment of different options and, in that instance, there was insufficient time and lack of funding for in-depth assessment. In the circumstances, the best available estimates at the time had been provided. Furthermore, the security industry had made rapid changes in technology within a short time owing to the events of 11 September 2001 and the blackout in New York City and that was a significant factor in cost increases.* In the opinion of OIOS, lessons should be learned from the fact that implementation of major projects only started in 2004, mainly because project scope had to be further assessed and substantial additional funding had to be requested subsequently. Especially with regard to security, the Secretariat needs to be able to afford itself the necessary time for due process when requesting funding for new projects, including the anticipation

of emerging needs reasonably in advance. The Office of Central Support Services needs to take stock of practices within the United Nations system for dealing with emergency security situations and devise a strategy for anticipating security needs and addressing them in a timely manner (Recommendation 2).

B. Projects at the United Nations Office at Geneva

18. While it is difficult to compare like with like because of the changes in the scope of the security projects, the costs relating to UNOG, which were budgeted at $15.5 million, are now expected to reach nearly $31 million in respect of construction, alteration, improvement and major maintenance. Moreover, OIOS noted that the consortium entrusted with the planning and implementation of UNOG security measures projected a total cost as high as $42 million for the required security upgrades. The cost increase for security projects relating to UNOG was made up of two main elements, i.e. the increase in the scope of work and the weakening of the United States dollar against the Swiss franc. Numerous changes to the design and scope of the projects, owing to changes in the threat scenario, inevitably affected the total cost. In some cases, estimated project costs have increased substantially — the Chemin de fer entrance by about 100 per cent from SwF 2.4 million ($1.5 million) to SwF 4.9 million ($3.9 million) and the Pregny entrance by about 60 per cent from SwF 6.3 million ($4 million) to SwF 10.3 million ($8.2 million). However, since the project scope and design changed so significantly, it is practically impossible to estimate the cost implications associated with the slow utilization of funds. For example, after the incidents of 11 September 2001, the Chemin de fer and Pregny entrances were redesigned to include traffic barriers, but after 19 August 2003, they again had to be redesigned. As the elements of individual projects were modified to address new threats to the United Nations, the implementation rate and cost of the projects were significantly affected. From June 2002 to May 2004, the United States dollar weakened against the Swiss franc by about 16 per cent, resulting in an estimated increase of some $3.4 million in project cost.

IV. Management of security strengthening projects at United Nations Headquarters

19. Of the 16 Headquarters projects included in the appropriation approved by the General Assembly in its resolution 56/286, four were completed within their combined allocation of $0.5 million.[1] These projects were implemented as planned, except that temporary tents were installed at the delegates' and visitors' entrance instead of prefabricated buildings, which would have to be removed during implementation of the capital master plan. Other projects were deferred to the capital master plan and the remaining projects were in various stages of execution.

A. Projects deferred to the capital master plan

20. The actual expenditure was $549,000 against the $5.3 million originally allocated for the projects deferred to the capital master plan.

21. The unspent balance of $4.8 million pertaining to these projects was pooled in a construction-in-progress account and reserved for future use. In the opinion of OIOS, since the implementation of these projects is contingent upon the future of the capital master plan, the pooling of these funds in a construction-in-progress account is inappropriate, because no construction is in progress under these projects and these funds might be used to absorb cost escalations on other projects. In the interest of financial prudence, these funds should be surrendered in accordance with financial regulation 5.3 (Recommendation 3). It is relevant to note that the Advisory Committee on Administrative and Budgetary Questions has cautioned that resources should be used strictly for the projects for which they were authorized (A/56/7/Add.9, para. 18).

B. Projects in progress

22. A number of projects were in progress at the time of the OIOS audit. Six of these were combined in one solicitation, which led to the issuance of a request for proposals in June 2003. It had taken about six months for revision of the scope of work, cost estimation, constructability review and finalization of specifications. The construction and installation contract for implementing these six projects was signed only on 31 March 2004, which was some 20 months after the adoption of resolution 56/286.

23. There is also a risk that the existence of underground utilities, including high pressure gas lines, high voltage electric feeders and steam service below the construction area, conditions which were not previously assessed, could result in further cost escalation. OIOS will continue to monitor these projects as part of its ongoing audit coverage of the capital master plan.

24. OIOS also learned that the Office of Central Support Services was contemplating changes in specifications pertaining to the access control system, whereby a digital video network would replace the analog video network currently envisaged in the construction contract. Although the financial implications of this change were not immediately clear at the time of the audit, it is likely that the increase in project costs would be significant. OIOS therefore is of the opinion that any decision to switch from analog to digital video network technology at this time should be supported by a convincing cost benefit and risk analysis to justify the additional investment (Recommendation 4).

1. Contract for design development

25. The contract for developing schematic cost estimates, design drawings and construction documents for security strengthening projects in the report of the Secretary-General (A/56/848) was awarded at a cost of $2.2 million to the existing design contractor for the capital master plan without competitive bidding, which is allowed under financial rule 110.19 only on an exceptional basis. The Office of Central Support Services justified the exception mainly on the grounds that the design for these projects needed to be integrated into the capital master plan and the design contractor for the capital master plan was in the best position to do so. In the opinion of OIOS, this justification was reasonable under the circumstances.

2. Contract for construction and installation

26. In June 2003, the Procurement Division issued a request for proposals to 27 companies for construction and installation work relating to the projects referred to in paragraphs 40 (b) (i), (ii), (iii), (vi), (vii) and (ix) of annex 1 to the report of the Secretary-General (A/56/848). Only three proposals were received by the closing date. Two proposals in the amounts of $33.7 million and $21.6 million were found to be technically qualified and the Procurement Division recommended that the contract be awarded to the lowest proposer for $21.6 million. In December 2003, the Headquarters Committee on Contracts endorsed the Procurement Division's recommendation and the contract was signed on 31 March 2004.

27. OIOS reviewed this contract to determine whether the Organization's interests were adequately safeguarded. The OIOS comparison of United Nations practices with those of the United States Government and the local construction industry showed that the guarantee provided by the contractor in the form of performance and payment bonds represented only 17.5 per cent (or $3.8 million) protection coverage for the $21.6 million contract, which was significantly lower than the United Nations requirement of 27.5 per cent (or $5.9 million) and the industry standard of 210 per cent (or $45.4 million).

28. The Office of the Capital Master Plan and the Procurement Division explained to OIOS that this contractor had been associated with the Organization for a long time and had been satisfactorily performing two other contracts (including the $88 million contract for broadcast services). In their view, the risk of entering into this arrangement was somewhat mitigated. The Procurement Division also clarified that the Dun and Bradstreet report indicated that the contractor was a low risk for experiencing any financial difficulty. However, OIOS believes that adequate guarantees should be obtained to ensure that quality and timeliness requirements are met and cost overruns minimized (Recommendation 5). A contractor's past satisfactory performance should not justify reducing bond requirements below acceptable levels. *The Procurement Division agreed with the OIOS views, but pointed out that in order to move that important contract forward, it had had to come up with an alternative form of guarantee based on its professional judgement.*

29. OIOS also noted that the United Nations does not require a bid performance bond from potential bidders. The general practice in the host country construction industry and in government contracts is for potential bidders to post a sum equal to 5 per cent of the bid amount. The successful bidder, upon failure or refusal to execute and deliver the required bonds within 8 to 10 days after receipt of notice of intent to award, will forfeit the bid bond. In the case of this contract, the existence of such a procedure would have put the Organization in a better position to enforce bid requirements as set forth in the request for proposals (Recommendation 6).

3. Contract for construction management

30. The Office of Central Support Services engaged a construction management firm to manage the construction and installation contract of $21.6 million (referred to in paras. 26-29 above). According to the Office of the Capital Master Plan, this contract was necessary in view of the complex nature of the construction and installation contract and the lack of adequate resources in-house. Instead of using competitive bidding, the Office of the Capital Master Plan and the Procurement Division, on grounds of exigency, recommended the award of a construction

management contract, at a cost of $1.2 million, to a consulting firm which had already been providing security integration services at a cost of $150,000. The Headquarters Committee on Contracts endorsed the contract award, noting that the large increase in the contract amount was due to the increased number of contractor staff, while the hourly fee remained more or less the same.

31. OIOS found that at the time of awarding the initial contract for $150,000 in June 2003, this contractor was not fully registered with the Procurement Division and that the provisional registration made in January 2003 had expired. According to the United Nations Procurement Manual, no contractual award shall be made prior to formal registration of a vendor and since full registration had not been completed within 90 days after provisional registration, he should have been removed from the vendor roster. On the contrary, this contractor was awarded the initial contract for $150,000 and also recommended for the additional award of the $1.2 million construction management contract, which was endorsed by the Headquarters Committee on Contracts in August 2003. *The Procurement Division clarified that the outputs of that contract were necessary for the other works relating to security projects to move forward and there was no alternative qualified supplier available to perform the works in question.* On 7 January 2004, the contractor formally applied for registration. During the registration process, the contractor was unable to satisfy the minimum criteria owing to its current poor financial standing. However, on 14 January 2004, the supplier review committee within the Procurement Division recommended the contractor's formal registration subject to the condition that the contractor's parent company formally agree to act as a guarantor for the performance of the $1.2 million contract. An amendment to this contract was eventually signed on 27 January 2004 (i.e. five months after the date of the award by the Headquarters Contracts Committee). *The Procurement Division commented that it was reliant on the vendor to complete the requirements for registration and was thus not in control of the timeline. The Division also commented that the additional award was a significantly higher value contract ($1.2 million), with more risk to the Organization, and therefore required a higher degree of due diligence.* The Procurement Division needs to ensure that effective control mechanisms are in place to avoid repetition of similar occurrences in future (Recommendation 7).

V. Management of security strengthening projects at the United Nations Office at Geneva

A. Project management and monitoring

32. A steering committee was established in June 2002 to oversee UNOG security projects. It had responsibilities, among others, to provide strategic direction, review work progress and expenditure patterns and ensure transparency and accountability during the planning and decision-making process. The frequency of meetings has been considerably reduced. The last steering committee meeting was held in February 2004; prior to that, a meeting was held in September 2003. In the opinion of OIOS, the steering committee should continue, but needs to meet more regularly to be an effective management tool ensuring a coordinated management decision-making process and providing direction and oversight (Recommendation 8).

33. The responsibility for the security-related construction projects has been assigned to the Chief of the UNOG Buildings and Engineering Section. However, the section is already fully occupied with the regular work relating to the renovation and maintenance of UNOG premises. Therefore, considering the size and complexity of the security projects, a dedicated project manager should have been assigned the responsibilities to manage the day-to-day operations, supervise the consortium's work and coordinate activities with the various parties involved. Since the project is still in its initial stages, OIOS would advocate the creation of a temporary post for a project manager to enhance UNOG project management capacity (Recommendation 9). This would be a good alternative to the present situation, where there appears to be heavy reliance on a consortium to manage the project. The funding of an additional post could alleviate part of the work of the Chief of the Buildings and Engineering Section, which possibly could be compensated by the reduced involvement of the consortium and cost efficiencies from closer project management and monitoring. Based on discussions with UNOG management, OIOS understood that additional staff resources would be requested.

34. At the project level, it was difficult to obtain complete and accurate data on the utilization of funds. In the opinion of OIOS, part of the problem is that the Integrated Management Information System (IMIS) is not conducive to managing multi-year construction projects. For example, the full cost of the Chemin de fer entrance was not clear, as expenditures/commitments were charged against various accounts (e.g. consultancy fees, procurement of construction work and procurement of electronic gates). This does not facilitate the control and monitoring of costs against a project budget. At the project level, ad-hoc systems had been developed, which were cumbersome and not adequate for managing, monitoring and reporting on project expenditures. OIOS is pleased to note that UNOG has already acted positively and found a solution within IMIS. This should facilitate the management of sub-project budgets and costs.

B. Procurement and contract management

35. UNOG selected a consortium to be responsible for three parts of the architectural and engineering services of security projects: (i) preliminary study; (ii) preparation of the terms of reference for a general contractor; and (iii) general supervision of the construction works. As at 31 May 2004, some $4.3 million was expended or committed to the consortium and total fees are currently projected at $6.4 million. *UNOG explained that the $6.4 million included some projects which had not been finalized and might not be implemented as designed.*

36. In December 2000, an invitation to bid was issued for the three parts of the required services. Two companies were selected to conduct a preliminary study. Based on the results of the two studies, which were vastly different in terms of security concept and projected construction costs, the present consortium was awarded the contract for all three parts. In the opinion of OIOS, after the preliminary study was completed and once the design concept, specifications and parameters were clearly defined, it would have been better to conduct a new bidding exercise for the subsequent parts.

37. The initial contract awarded to the consortium to implement construction projects, estimated at SwF 13.7 million ($8 million), was SwF 1.12 million

($670,000). In August 2002, the value of the construction work was significantly increased to an estimated SwF 42.5 million ($28.7 million). The scope of planned construction work had drastically changed and at the initiative of the consortium, there was an increase in the number of tasks for which they would be responsible. For example, as an additional task the consortium had to prepare specifications for individual contractors instead of preparing the specifications for a general contractor. *UNOG explained that that approach had been taken, as at that time only some parts of the projects had been agreed upon and UNOG had not had the funds for the entire project.* As a result of these changes, the consortium fees were revised upwards to SwF 5.9 million ($4 million), an increase of more than 500 per cent. As of July 2004, it is expected that the total value of works will increase to over SwF 53 million ($42 million) including the consortium's fees of SwF 8 million ($6.4 million).

38. Considering the vast increase in the scope of the project (from SwF 13.7 million to SwF 42.5 million), the change in the nature of work required by the consortium and the drastic increase in the total fees, OIOS is of the opinion that a market survey should have been conducted to ensure that the fees payable were still competitive. Moreover, OIOS used industry standards as a benchmark to assess the reasonableness of the total costs charged and found that they appeared to be high. *UNOG was of the opinion that a renewed bidding exercise had not been necessary, as the terms of reference had basically remained the same and only the scope of work had increased. UNOG further stated, inter alia, that a new bidding exercise would have delayed the project by several months and that the current consortium had already acquired an in-depth knowledge of the project. UNOG also highlighted that there had been no change in the hourly rates payable.* OIOS would emphasize that once the estimated hours for completion of the work were applied to the hourly rates agreed competitively, a "total service cost" contract was established. The "total service cost" was then payable (on satisfactory completion of the various stages of the sub-project), regardless of the actual hours worked. OIOS also noted that when the volume of the work increased, the number of hours to complete the revised scope was recalculated and a new "total service cost" was agreed upon. In the opinion of OIOS, this may not have been the most appropriate remuneration method considering the constantly changing scope of the security projects. *UNOG commented that the estimated hours proposed for each sub-project had been determined to be reasonable and in accordance with industry standards.* OIOS maintains that the competitiveness of the current arrangement needs to be reconfirmed (Recommendation 10).

39. The UNOG Committee on Contracts, while endorsing the revised contract, advised that the fees for each of the sub-projects be limited by a ceiling. Accordingly, the contract requires an amendment whenever the total fees per sub-project exceed the maximum amount provided in the contract. OIOS noted that the fees for the Chemin de fer entrance had almost doubled without any amendment to the contract. *UNOG explained that the increase had been agreed between the project manager and the consortium and that a formal amendment was being prepared.* OIOS maintains that the requisitioner cannot agree to contract amendments, which need to be processed by the UNOG Purchase and Transportation Section.

40. For other major procurements reviewed, OIOS assessed that UNOG had complied with United Nations procurement procedures. However, most of the

companies that expressed an interest and were awarded contracts were Swiss-based. While appreciating the efforts of UNOG to broaden the vendor base, OIOS would encourage that Office to make further attempts to reach a wider European market. *UNOG confirmed that the supplier database was being reviewed.*

41. The security projects have significantly increased the workload of the UNOG Purchase and Transportation Section. It is estimated that the volume of work has increased by approximately one third. Furthermore, from a review of the procurement activities and discussions, it is clear that UNOG does not have the necessary number of experienced procurement staff effectively to manage the procurement process relating to large and complex construction projects. Considering this, it may be appropriate to augment temporarily the Professional staffing levels for the term of the security projects.

VI. Recommendations

Recommendation 1

42. The UNOG Division of Administration, once the feasibility studies have been finalized and the requirements for becoming compliant with the Headquarters minimum operating security standards are known, should develop an up-to-date security strategy and final plan per individual project. Once this is completed, senior management should ensure that it is respected and project objectives are achieved within the costs and timelines established (AE2004/311/01/01).*

43. *The UNOG Division of Administration accepted that recommendation, but indicated that it was a challenging task, considering the changing and unpredictable security environment.*

Recommendation 2

44. The Office of Central Support Services should study the practices within the United Nations system for dealing with emergency security situations and devise a strategy for anticipating security needs and addressing them in a timely manner (AH2004/510/01/1).

45. *The Office of Central Support Services accepted that recommendation.*

Recommendation 3

46. The Office of Central Support Services, in accordance with financial regulation 5.3, should surrender unspent 2002-2003 appropriations amounting to $4.8 million, relating to projects deferred to the capital master plan. Alternatively, the Secretariat should proportionately reduce the additional funds for security proposed to be sought for the current biennium during the fifty-ninth session (AH2004/510/01/2).

47. *The Office of Central Support Services accepted that recommendation.*

* The symbols in parentheses in this section refer to an internal code used by OIOS for recording recommendations.

Recommendation 4

48. The Office of Central Support Services should ensure that any decision to switch from analog to digital video network technology for the access control project at this time is supported by a convincing cost benefit and risk analysis to justify the additional investment (AH2004/510/01/3).

49. *The Office of Central Support Services accepted that recommendation.*

Recommendation 5

50. The Office of Central Support Services should ensure in future that bond requirements for construction projects are applied uniformly at a level consistent with industry standards (AH2004/513/08/2).

51. *The Office of Central Support Services accepted that recommendation.*

Recommendation 6

52. The Office of Central Support Services and the Office of Legal Affairs should ensure that requests for proposals for future construction contracts include a clause requiring bidders to provide a bid bond equivalent to a determined percentage of the bid amount (AH2004/513/08/4).

53. *The Office of Central Support Services accepted that recommendation and stated that it would seriously consider the requirement of bid bonds in future requests for proposals. The Office of Legal Affairs indicated that it was prepared to assist the Procurement Division in drafting the appropriate provisions to ensure that such bonds protected the Organization's interests.*

Recommendation 7

54. The Procurement Division should ensure that effective controls are in place to prevent the award of contracts to vendors who are not fully registered on the Organization's vendor roster (AH2004/510/01/4).

55. *The Procurement Division accepted that recommendation and stated that it currently had a system in place to block more effectively vendors who had not completed their registration. Such vendors could only be unblocked after careful review and special approval by the Chief of the Division.*

Recommendation 8

56. The UNOG Division of Administration should revitalize the steering committee to oversee the implementation of the security projects and to be a more effective management tool for coordinating the decision-making process and providing direction and oversight (AE2004/311/01/02).

57. *The UNOG Division of Administration accepted that recommendation.*

Recommendation 9

58. The UNOG Division of Administration, to enhance UNOG project management capacity, should create a temporary post for a project manager with responsibilities to manage day-to-day operations, supervise the consortium's work and coordinate activities with the various parties involved. Moreover, to ensure the

necessary number of experienced procurement staff to manage the procurement process relating to large and complex construction projects effectively, UNOG should temporarily augment the Professional procurement staffing levels for the duration of the security projects (AE2004/311/01/03).

59. *The UNOG Division of Administration accepted that recommendation.*

Recommendation 10

60. The UNOG Division of Administration should, by conducting a market survey, assess the competitiveness of the current arrangements with the consortium considering the vast increase in the scope of the security project and the change in the nature of work required by the consortium (AE2004/311/01/04).

61. *The UNOG Division of Administration did not agree with that recommendation as it was of the opinion that it was not necessary because the terms of reference had basically remained the same and only the scope of work had increased. UNOG stated that the unit prices had remained unchanged as per the contract signed in 2001 and were significantly lower than the Swiss Standards average fees. The total fees paid to the consortium were based on the unit price and the architectural/engineering work involved. In line with the general spirit of the recommendation, however, the Division of Administration would periodically verify the market unit prices comparatively with the contract unit prices in order to ensure that the latter remained competitive.* OIOS maintains that, given the vast increase in scope, a comprehensive reassessment of the remuneration arrangements is warranted and that a simple comparison of unit prices for working hours would not be sufficient.

(*Signed*) Dileep **Nair**
Under-Secretary-General for Internal Oversight Services

Notes

[1] Completed projects are those referred to in para. 40 (a) (iv) and (v), and 40 (b) (viii) and (x) of annex 1 to A/56/848.